

Market Update



Information Technology Services Q3 2020

Market Insights

The information technology (IT) services sector saw its share of fallout from the impact of COVID-19. Following an initial jump in expenditures focused on the immediate facilitation of remote and work-from-home capabilities, temporary holds on previously budgeted expenditures delayed projects and implementations across various served end markets. As the pandemic has continued, however, the global shift to remote work, continued proliferation of cloud services and necessary IT infrastructural and security investment required to facilitate these changing modes of work stand to be a boon for the industry.

After tracking the market through the COVID-induced economic downturn at the end of Q1 and beginning of Q2, the IT services sector has rebounded throughout the latter half of Q2 and through Q3. All IT services subsectors are up year-over-year and quarter-over-quarter with the exception of North American and European IT managed services (ITMs), which is up year-over-year but down quarter-over-quarter. Offshore IT services and software development companies demonstrated the strongest outperformance of the market in Q3.

There is little expectation that IT budgets will shrink, irrespective of near-term shifts to operating environments. To the contrary, the pressure for all industries to digitally transform provides a stable growth driver for the IT services space for the medium term. As we move further into the post COVID-19 world, the burning questions will be, which segments of the market stand to grow most sustainably as a result, and what will this mean for the sector's valuations over the coming year?

Lincoln International's IT Services Sector

Lincoln International recognizes the importance of understanding a client's industry, value drivers, growth opportunities and challenges. Our extensive expertise provides in-depth market insights, deep relationships with the most active strategic and financial partners and superior knowledge on how to best position a business and overcome potential issues. These attributes, combined with our globally integrated resources and flawless execution, enable us to consistently deliver outstanding outcomes for our clients.

Lincoln International's IT services team has established itself amongst the most active M&A advisors in the mid-market. Our senior bankers provide sector-specific expertise, global buyer access and unmatched execution within the space. This update tracks pricing and valuation metrics and transaction activity for five key IT services subsectors: North American and European system integrators (SIs), offshore IT services, software development, North American and European value-added resellers (VARs) and North American and European IT managed services (ITMs).

Lincoln's Recent IT Services Transactions

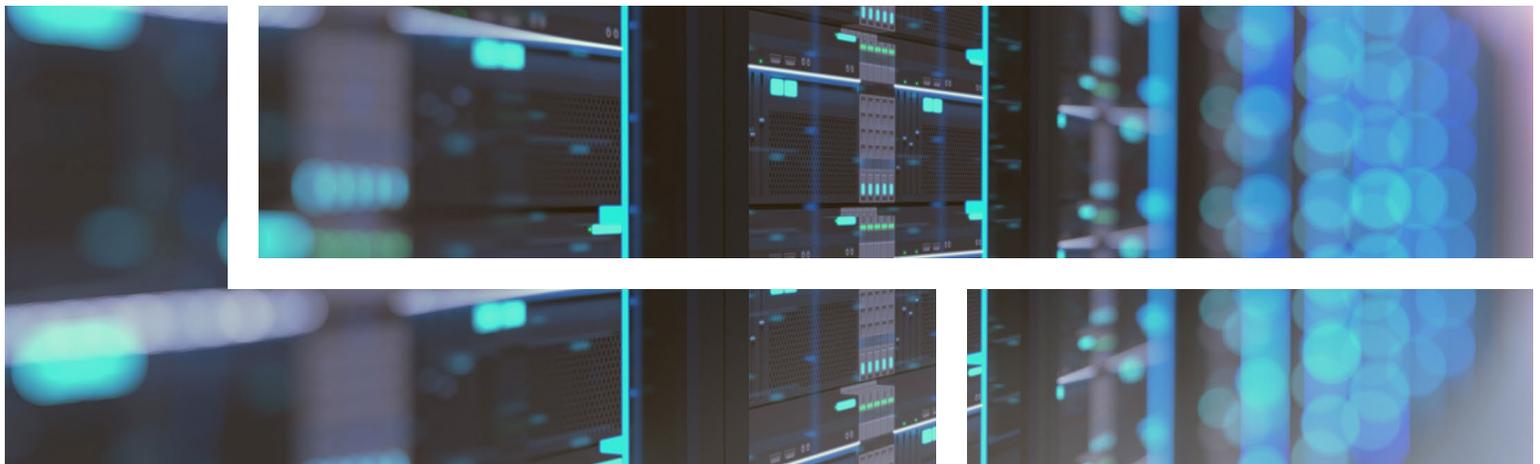
<p>LaSalle Capital</p> <p>has sold</p> <p>avtex the point of interaction™</p> <p>to</p> <p>NEP Norwest Equity Partners</p> <p>Sell-Side</p> 	<p>ENDLESS</p> <p>has sold</p> <p>mti MANAGING DATA SECURELY</p> <p>to</p> <p>RICOH</p> <p>Sell-Side</p> 	<p>Private shareholders</p> <p>have sold a majority stake in</p> <p>CITYCOMP</p> <p>to</p> <p>s&t</p> <p>Sell-Side</p> 	<p>ultima</p> <p>has been sold to</p> <p>APSE CAPITAL</p> <p>Sell-Side</p> 	<p>MANGROVE EQUITY PARTNERS</p> <p>has sold</p> <p>COMPUTER AIDED TECHNOLOGY</p> <p>to</p> <p>CIVC PARTNERS</p> <p>Sell-Side</p> 
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IT Services Financial Performance

Quarter-over-Quarter Price Performance

Outperformers	Change
Persistent Systems	116.8%
COFORGE	69.3%
Mphasis	60.5%
Virtusa	51.4%
Computacenter	50.6%

Underperformers	Change
International Business Machines	0.7%
Larsen & Toubro	(1.8%)
Cancom	(2.5%)
Atos	(5.4%)
United Internet	(9.6%)



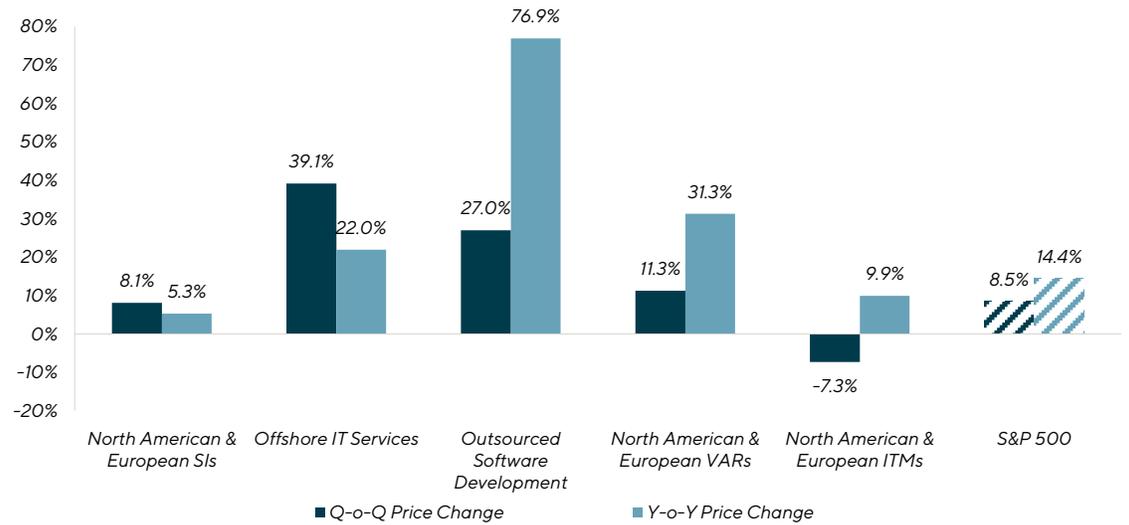
Highlights

Software Development is up 76.9% YoY and outperformed the S&P 500 in Q2 and Q3 2020 to soar past the year highs previously achieved by the subsector in Q1 prior to the COVID-induced economic downturn.

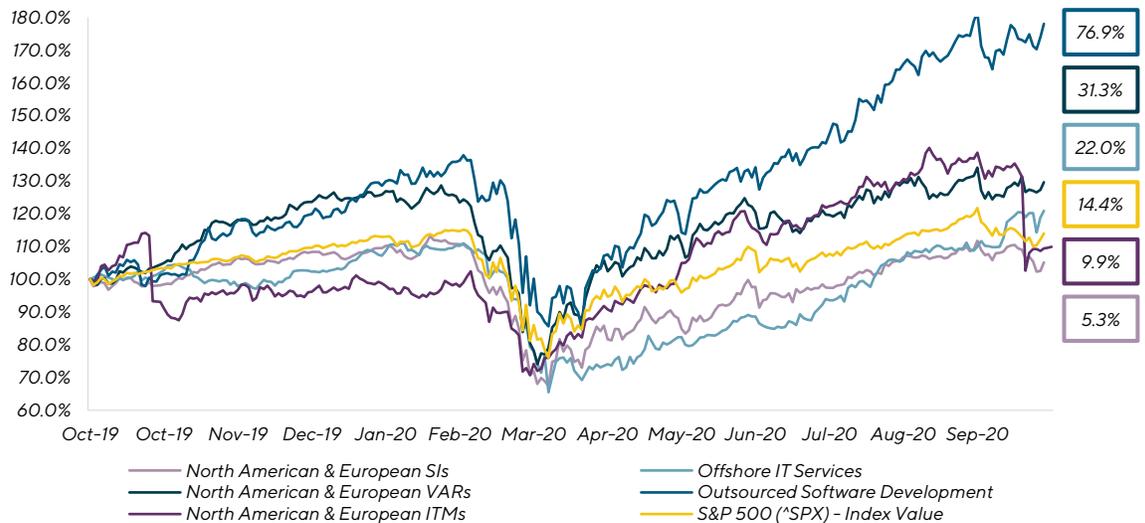
The four other IT services subsectors continue to recover at a more modest pace with North American and European VARs and offshore IT services marginally outpacing the market. Interestingly, after having been in negative territory through Q2, offshore IT services companies reported their strongest quarter-over-quarter growth in the last year in Q3 growing 39.1%. This contributed to an improved year-over-year increase for the index of 22.0%.

North American and European SIs recovered 8.1% in Q3, below market growth of 8.5% for the quarter, and North American and European ITMs declined (7.3%). Both subsectors continue to lag behind the market and other IT services subsectors.

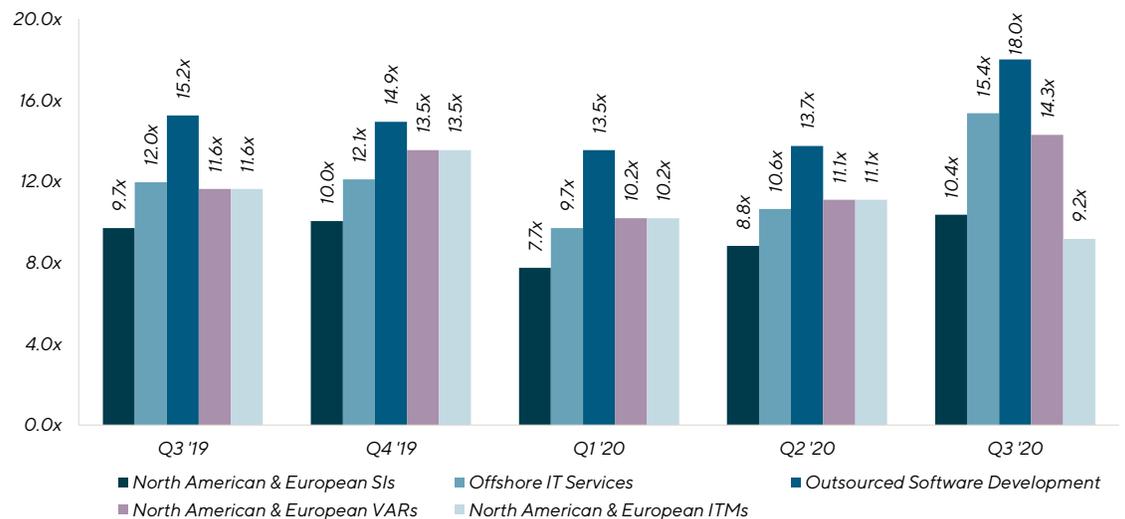
Quarter-over-Quarter & Year over Year Stock Indices Price Change



LTM Relative Stock Indices Price Performance



Historical Enterprise Value / LTM EBITDA Valuation Performance



Note: Excludes HR technology, as companies within that subsector typically trade as a multiple of revenue

IT Services Stock Indices Data

Company Name	Stock Price	% of 52 Week High	Market Cap	Enterprise Value	LTM		YoY Revenue Growth	EBITDA Margin	Enterprise Value / LTM	
					Revenue	EBITDA			Revenue	EBITDA
North American & European SIs										
Accenture	\$225.99	91.2%	\$143,774	\$139,247	\$44,327	\$8,287	2.6%	18.7%	3.1x	15.2x
Atos	80.79	83.4%	8,881	11,332	12,909	1,542	(11.1%)	11.9%	0.8x	5.5x
Capgemini	128.88	90.2%	21,806	30,426	16,542	2,085	5.8%	12.6%	1.8x	12.2x
CGI Inc.	67.77	77.8%	17,509	19,964	8,967	1,544	(1.9%)	17.2%	2.2x	11.8x
Cognizant Technology Solutions	69.42	96.7%	37,642	36,527	16,757	3,294	1.8%	19.7%	2.2x	10.4x
DXC Technology Company	17.85	46.5%	4,537	13,089	19,189	2,927	(5.8%)	15.3%	0.7x	3.6x
International Business Machines	121.67	76.6%	108,357	164,155	75,499	15,577	(3.0%)	20.6%	2.2x	9.2x
Virtusa	49.16	93.1%	1,489	1,805	1,294	105	2.2%	8.1%	1.4x	15.1x
Mean		81.9%					(1.2%)	15.5%	1.8x	10.4x
Median		86.8%					0.0%	16.2%	2.0x	11.1x
Offshore IT Services										
COFORGE	31.58	96.0%	1,913	1,839	566	90	2.3%	15.9%	3.2x	19.1x
HCL Technologies	11.04	95.5%	29,953	29,684	9,928	2,459	11.0%	24.8%	2.9x	11.2x
Infosys	13.71	97.2%	58,162	55,764	12,770	3,121	5.5%	24.4%	4.3x	17.0x
L&T Technology Services	22.01	90.9%	2,301	2,244	749	136	(2.6%)	18.1%	2.9x	14.9x
Larsen & Toubro	12.27	60.5%	17,232	34,476	18,480	2,221	(12.5%)	12.0%	1.8x	14.7x
Mindtree	18.20	97.9%	2,998	2,835	1,038	152	(0.9%)	14.7%	2.7x	16.7x
Mphasis	18.84	97.7%	3,516	3,320	1,201	201	3.8%	16.8%	2.7x	14.6x
Tata Consultancy Services	33.90	97.5%	127,189	123,036	20,797	5,394	(4.7%)	25.9%	5.8x	21.5x
Tech Mahindra	10.77	93.6%	9,393	8,764	4,941	685	(3.0%)	13.9%	1.7x	11.7x
Wipro	4.27	96.6%	24,374	20,575	8,104	1,577	(5.8%)	19.5%	2.5x	12.1x
Mean		92.3%					(0.7%)	18.6%	3.0x	15.4x
Median		96.3%					(1.7%)	17.4%	2.8x	14.8x
Outsourced Software Development										
Endava	\$63.15	99.3%	\$3,434	\$3,374	\$435	\$39	18.8%	9.0%	7.8x	NM
EPAM Systems	323.28	95.4%	18,056	17,270	2,505	391	22.4%	15.6%	6.9x	NM
Globant	179.22	94.7%	7,090	6,827	730	115	26.2%	15.7%	9.4x	NM
Kainos Group	12.84	82.9%	1,571	1,523	223	30	13.0%	13.7%	6.6x	NM
Perficient	42.74	79.5%	1,421	1,577	582	83	9.5%	14.3%	2.7x	16.8x
Persistent Systems	18.20	96.7%	1,391	1,258	493	65	1.0%	13.1%	2.5x	17.9x
Mean		91.4%					15.1%	13.6%	6.0x	17.3x
Median		95.0%					15.9%	14.0%	6.7x	17.3x
North American and European VARs										
Bechtle	\$203.03	98.7%	\$8,527	\$8,951	\$6,234	\$337	11.7%	5.4%	1.4x	23.0x
Cancom	51.78	74.7%	1,996	1,851	1,824	147	2.2%	8.0%	1.0x	11.1x
CDW Corporation	119.53	81.8%	17,053	20,612	18,200	1,488	6.8%	8.2%	1.1x	12.9x
Computacenter	30.60	97.9%	3,457	3,425	6,300	241	3.9%	3.8%	0.5x	11.2x
Dustin Group	6.29	69.5%	557	780	1,416	59	12.0%	4.1%	0.5x	9.9x
Insight Enterprises	56.58	77.3%	1,984	2,621	8,322	325	18.6%	3.9%	0.3x	7.2x
Softcat	15.61	82.4%	3,090	3,036	1,427	123	(6.1%)	8.6%	2.2x	24.7x
Mean		83.2%					7.0%	6.0%	1.0x	14.3x
Median		81.8%					6.8%	5.4%	1.0x	11.2x
North American and European ITMs										
iomart Group	\$4.59	86.8%	\$501	\$575	\$140	\$49	3.8%	34.9%	4.0x	11.3x
Redcentric	1.84	89.9%	284	329	109	5	(10.3%)	4.4%	2.9x	NM
United Internet	38.36	74.5%	7,183	9,833	5,959	1,288	1.5%	21.6%	1.6x	7.0x
Mean		83.7%					(1.7%)	20.3%	2.8x	9.2x
Median		86.8%					1.5%	21.6%	2.9x	9.2x
Total Mean		87.1%					3.5%	14.5%	2.8x	13.4x
Total Median		91.0%					2.3%	14.5%	2.3x	12.2x

Sources: Bloomberg, Capital IQ and company filings, as of 06/30/20

Over the course of Q3 2020, Cognizant continued its buying tear with the acquisition of another three IT services firms. New Signature in August and Tin Roof Software and 10th Magnitude both in September. While the trio offer a bevy of IT services solutions, the common thread among them is Cognizant's focused push to expand cloud and mobile solutions consulting, architecture and support. The acquisitions serve to expand Cognizant's hyperscale cloud services platform, a trend which continues to experience significant and increasing tailwinds across the industry.

Market Intelligence

09/21/20 – There has been an explosion of Customer Data Platform (CDP) service companies in the last few months. Fragmented data from multiple sources can be notoriously difficult to organize, which obviously isn't ideal for companies that rely on timely, well-curated data to operate optimally. IBM estimates that co-called "bad data" already costs U.S. businesses roughly \$3 trillion annually, so addressing this challenge has become a priority for organizations of all sizes. CDPs help solve this problem by collecting data from all available sources, organizing it, tagging it, and making it usable for anyone who needs access to it. Companies like Adobe, SAP, Oracle, Treasure Data and Microsoft are already heavily invested in providing the market with powerful new CDPs. new entrants like Segment and ActionIQ have impressed with new CDP services taking unique approaches to solve the challenge of gaining the coveted 360 customer view.

Forbes

10/06/20 – Industry participants may need to offer some discounts to support long-term customers affected severely by the pandemic. However, price discounts are unlikely to lead to long-term revenue impacts as IT services are essential in maintaining business operations for customers, especially during pandemic-induced lockdowns. Short-term profitability is affected by lower utilization rates, but these rates are expected to revert back to normalized levels as companies adjust their hiring strategies and demand picks up in the recovery. Attrition rates declined significantly for most companies in 1H20 as the job market was muted when employers were more cautious amid COVID-19 uncertainties. Companies have been increasing local hiring in the US to reduce dependency on the visas, as the related policies have been volatile over the past few years. Most IT services companies have adopted remote working during the pandemic. The visa ban's impact is

thus minimized because few workers would have travelled to the US, even if the ban was lifted. However, if the ban is prolonged such that companies see higher visa rejection rates in 2021, then they will need to compete in hiring more local staff in the US. This will increase costs and reduce profitability or project delivery which requires onsite workers will slow down.

FitchRatings

10/30/2020 – Even amid uncertainty, many businesses will focus on IT spending. Just as in previous years, updating outdated IT infrastructure will continue to be the top factor driving IT budget increases – cited by 56% of organizations planning on growing IT spend – followed by an increased priority on IT projects (45%) and escalating security concerns (39%).

Unsurprisingly, the coronavirus pandemic will also influence tech spending in a major way in 2021. Among organizations increasing budgets in 2021, 38% cite changes to business operations due to COVID-19 as a reason to increase spend, with 36% citing the need to support a remote workforce during the ongoing crisis

In 2021, budget drivers will vary by company size. For example, the need to upgrade outdated infrastructure will be the top factor contributing to increases in IT spending among small and mid-size businesses (1-999 employees). An increased priority on IT projects is the top factor influencing IT budget growth in enterprises (1000+ employees) – at a rate significantly higher than in small and mid-size businesses – likely because enterprises are more likely to have experienced changes to their business operations causing them to re-prioritize tech investments to support their needs.

Spiceworks Ziff Davis

Selected M&A Transaction Recap

Closed	Target Company	Target Description	Acquiring Company
Announced	Odigo	Provides cloud-based contact center solutions	Apax Partners
Sep-20	Archer Software	Provides technology consulting and custom software development services	cPrime
Sep-20	BlueWater Federal Solutions	Provides IT solutions, cybersecurity and application development services	Tetra Tech
Sep-20	10th Magnitude	Provides cloud managed services and IT consulting solutions	Cognizant Technology Solutions Corporation
Sep-20	City Network International	Provides IT infrastructure cloud and data center services	Iver
Sep-20	Tin Roof Software	Provides software development and architecture solutions	Cognizant Technology Solutions Corporation

Source: CapIQ, Mergermarket, company filings and Business Wire, as of 09/30/20

Selected M&A Transaction Recap (cont'd)

Closed	Target Company	Target Description	Acquiring Company
Sep-20	Ricston	Provides technology consulting, integration and migration services	EPAM Systems
Sep-20	EasyVista	Provides IT service management solutions	Eurazeo
Sep-20	Much-Net	Provides software development IT project management, implementation, migration and customization services	BELLIN Treasury International
Sep-20	Damecon Group	Provides IT and cloud-based services	Conscia Nederland
Sep-20	SECOA	Provides cloud-based IT solutions for communication and security	Conscia
Sep-20	First Option Technical Support	Provides IT support and technical helpdesk services	Phoenix47
Sep-20	Click Networks	Provides IT managed and cloud-based services	Arrow Business Communications
Sep-20	EXATO	Provides IT consulting services, such as online security, cloud backup, dropbox and IT infrastructure	Dustin Group
Sep-20	Fandotech	Provides cloud technology solutions, hosting, colocation and managed network services	Cooperative Systems
Aug-20	GlobalSCAPE	Provides managed and hosted solutions and provides associated services for secure information and data exchange	HelpSystems
Aug-20	Altivon	Provides IT consulting services	ConvergeOne Holdings
Aug-20	Southern Data Solutions	Provides system implementation and IT consulting services	Dynamic Quest
Aug-20	Xamin	Provides managed IT services	Mowery & Schoenfeld
Aug-20	Congiv	Provides consultancy, solutions and services in the IT and telecommunications sector	ROBUR Industry Service Group
Aug-20	Kanari	Provides IT performance solutions	Adelis Equity Partners
Aug-20	Weare4C	Provides Salesforce integration, consulting, implementation and maintenance services and solutions	Wipro
Aug-20	IVIA	Provides IT solutions, including technology outsourcing and on-demand services	Wipro
Aug-20	New Signature	Provides technology and web solutions to businesses	Cognizant Technology Solutions
Aug-20	Organize Informacao	Provides IT consulting and customization and personalization services for existing applications	Accenture
Jul-20	Grupo ASSA Worldwide	Provides IT and digital transformation services	Globant
Jul-20	Getronics	Provides information and communication technology services	GSH Private Capital
Jul-20	Alphaserve Technologies	Provides IT, cloud and cybersecurity services	Eze Castle Integration
Jul-20	Informatel Services	Provides information and communications technology infrastructure solutions	Provide SME
Jul-20	Nexstep Technology Services	Provides outsourced IT services	Dynamic Quest
Jul-20	Sentelis	Provides data consulting and data scaling services	Accenture
Jul-20	Naimuri	Provides technology, cyber and information security, business change consultancy and training services	QinetiQ Group
Jul-20	Plan B Technologies	Provides IT solutions and other professional services	Computer Design and Integration

Source: CapIQ, Mergermarket, company filings and Business Wire, as of 09/30/20



Lincoln's Business Services Group

Committed to Serving Our Clients

We are immersed in the constantly evolving, rapidly growing service-based economy. Our breadth of transactional, operational and technical experience enables us to intuitively communicate the underlying dynamics in key subsectors and generate excellent outcomes for our clients' individual needs.

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